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The Crises in Affordable and Entry Level Housing

And What to do About it

Montgomery County Housing Policy 2011

Montgomery County is finding itself in a disadvantaged competitive position when it comes to housing in the Washington metropolitan area. While generally the hard costs to build a house in Montgomery County compares favorably with the costs in neighboring jurisdictions, the soft costs and the land development costs compares poorly and the result is a ratcheting up of the entry level home prices, constraints on move-up housing and the elimination of new affordable housing in the county. There are many estimates of the total number of potential lots zoned in the county however not one of the studies considers the high cost to bring the land to market or the feasibility of development. Even without the cost of the land, required costs can include:

- Over $10,000 per lot for subdivision approval design and review
- Over $40,000 per lot for impact taxes
- Over $40,000 per lot for land development
- Over $10,000 per lot for the MPDU subsidy
- Over $10,000 per lot for application and permit fees
- Over $5000 per lot for WSSC fees and charges

In addition to these fees can be additional costs for amenities such as tot lots, parks, cost for forest conservation, PAMR and others. There is the cost of the time and effort to obtain approvals and develop a property. Lastly, there is the uncertainty inherent in the approval system that allows for changes to occur throughout the subdivision process.

Funds for home building are either raised from investors, demanding a high rate of return, or come from a bank with costs associated with loan fees and interest payments. A typical subdivision approval can easily take over one year, development can take six months or more and building permits can take a few months. The longer the approval time, the higher the financing costs. The greater the risk of approval, the higher the return on investment must be to attract investors. As a result of the high costs of development, some of the land in Montgomery County may have a negative or nominal land value!

To further compound the problem includes the increasingly high cost to subsidize and sell an MPDU dwelling. For single family MPDU homes we are experiencing higher development costs and higher construction costs and the recent refusal of the GSEs from accepting the requirements of the MPDU program on their loans and loan guarantees. In addition, the market is hesitating in buying an MPDU with the 99 year deed restriction. The for-sale MPDU is at a competitive disadvantage compared to the re-sale market. For high rise buildings, the MPDU program is further affected by the high costs for structured or underground parking in order to meet the density requirements. In the past, the MPDU program theoretically allowed an increase in density to compensate for the minimum MPDU requirement. That has evaporated so that the MPDU program is completely subsidized by the market rate units that raise their costs even further.

It is critical to support entry level housing for at least four reasons;

1. The entry level buyer is likely vacating an affordable, entry level rental unit
2. The entry level buyer, in an effort to find an affordable home, may leave the County, never to return
3. The entry level buyer represents the future employee the County needs
4. The first home puts the entry level household on a housing market path for moving up the housing ladder

Supporting the “move-up” market is critical for the following reasons:

1. The move-up buyer is likely vacating an affordable rental or for-sale unit
2. The move-up buyer can relocate to another County to find better value
3. The move-up buyer represents the employment base of the County
4. The move-up home is generally cash-flow positive for the County’s tax base

We recommend that the DHCA housing policy includes the following:

1. Reduction or elimination of fees and requirements for entry level and affordable homes.
2. Elimination of redundant reviews and repeated re-reviews of applications.
3. Reduction in the number of reviews required for subdivision approval.
4. Flexible zoning policy to adapt to market changes and specific locational characteristics.
5. Reduce the MPDU deed restrictions to 20 years from 99 years.
6. A buy-out program for high rise MPDUs for funding HIF.
7. Revisit the density bonus for providing MPDUs.
8. Revisit the MPDU goal to minimize any loss to the builder in providing an MPDU.

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